RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Jan. 15, 1997 **LETTER 1217**

THE MARKET: These Letters (in case you hadn't noticed) are written on two levels. The first is on the level of what the market is **actually doing,** based on price, indicators and averages. On the second level I provide what I consider valid background criteria and information such as values, economic theory and historical comparisons.

But it is important to remember that money is made on the reality of what the markets are doing, not on economic theory. For example, this market, by almost any measurement, is extremely overvalued, and it has been for the last few years. Yet many stock averages, the advance-decline ratio on the NYSE and certainly my Primary Trend Index continue to climb to new highs.

And this from a late *Merrill Lynch* report: "The US economy is in the best fundamental shape it has been in for 25 years." **Russell comment:** Great, but the real question is, "Can it get better, or are we seeing the best?"

Listed below are a few items that I am watching with particular interest at this time:

(1) The **Dow** surged to new bull market highs last week (January 6 and 7) along with new highs in the Nasdaq. Hopeful.

(2) On January 7 both my Primary Trend Index and the advance-decline ratio (NYSE) rose to new bull market highs. Bullish.

(3) Daily new highs (NYSE) have trailed off, failing to match the peaks of November. This simply suggests that the stock market has become more selective.

(4) The **D-J Transportation Average** has recorded three successively *lower* peaks. Thus the Transports have not only failed to confirm the Industrials -- they have diverged (see page 1 chart). When the Averages trace out a series of diverging peaks, the market is hoisting a yellow flag. Potential negative.

(5) The Dow A-D line is simply a daily advance-decline line of the 30 Dow Industrials. Since December 27 the **Dow A-D line** has recorded three successively lower peaks. This indicator tells us that fewer and fewer of the 30 Dow industrial stocks have participated in the series of new Dow highs. This is a negative unless it is corrected.

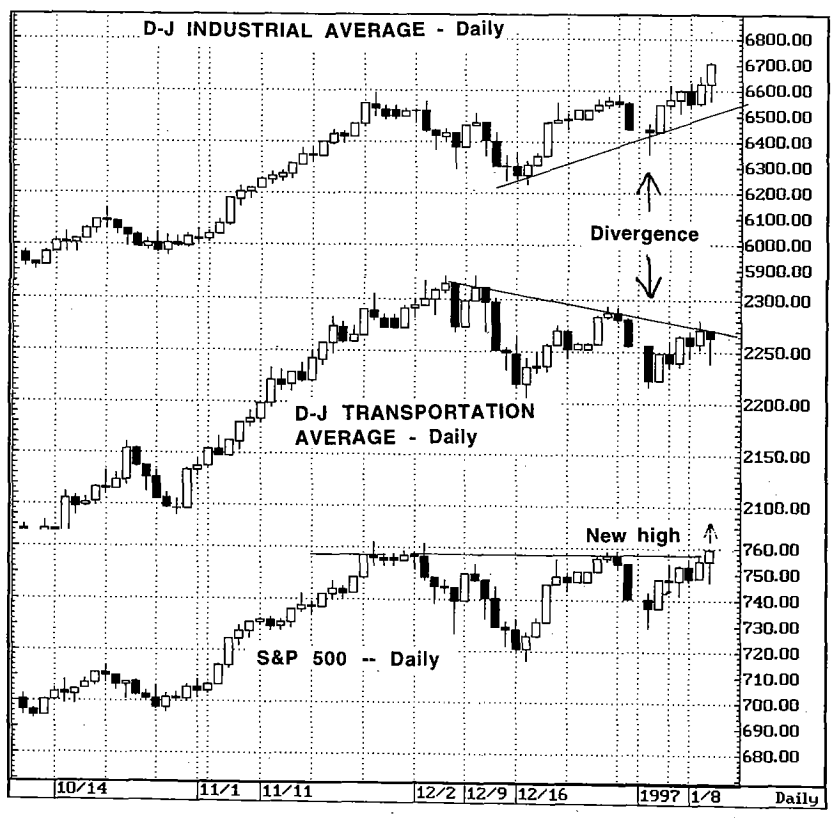
(6) The S&P 500 recorded its last high back on November 25. But on January 10 the S&P finally rallied to a new high of **759.50**. A clear positive. The only glaring negative in the current situation is the refusal of the Transports to confirm.

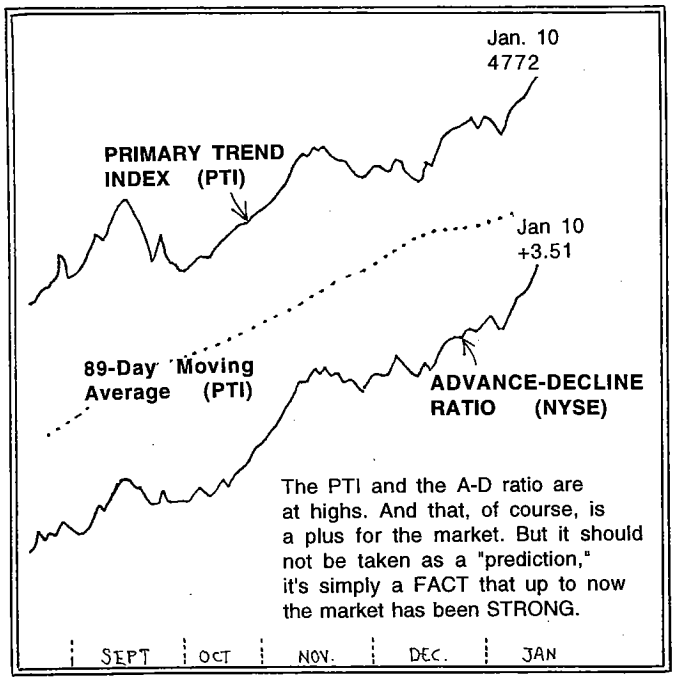
Jan. 3 DJIA 6544.09; PTI 4760; A-D Ratio +3.08
Jan. 10 DJIA 6703.79; PTI 4772; A-D Ratio +3.51
Dow Yield: 1.98%; Dow Price/Earnings: 19.4
Dow 144-day MA: 6248; Dow 34-day MA: 6703
Dow Times Book Value: 5.01; PTI 89-day MA: 4691
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 385.36; Gold-PTI: 170

Obviously, the "problem" of the failure by the Transports to confirm can be corrected by a forthcoming good rally in this Average. But why guess -- let's see if it happens. I'm watching the PTI with particular interest now. The reason is that when any technical difficulty arises (such as the Transports non-confirmation), the PTI becomes invaluable for defining the underlying trend.

(7) The long bond (30 year T-bond) is now yielding quite a bit more than the earnings yield on the S&P 500. Normally, the two run in tandem. The fact that the very safe yield on the Treasuries are above the variable earnings yield on the S&P is a background negative. It also means that the market is now extremely sensitive to any forthcoming weakness in bonds (see later section on this).

(8) In the last Letter I discussed the mutual funds, and I showed a chart of *Investor's Business Daily's* Mutual Fund Index. It's significant that the high for this index of 20 leading "growth equity funds" was recorded last May, fully eight months ago.





(9) The big picture, however, is that investor emphasis continues to be on which stocks to buy and which stocks to hold. There is little or almost no talk regarding which stocks to sell or (God forbid) on actually cutting back on positions. Significantly, the cash position of the mutual funds has declined to 5.8%, lowest level in 19 years.

PRIMARY TREND INDEX (PTI): In this Letter and in recent Letters I have written about the dangers inherent in the current market. I discussed values (actually over-values), low dividends, and I discussed what happened in the third year or the year following two huge back-to-back rising years.

All this notwithstanding, what we MUST deal with in this business is **price and reality.** And that's where the PTI comes in. The PTI is not concerned with what the stock market "should be" doing based on past case histories. The PTI doesn't tell us whether the stock market is dangerous or safe, and the PTI doesn't tell us whether the market is expensive or cheap. No, the PTI tells us what the stock market is actually doing. The PTI deals strictly with the underlying direction and the trend.

The chart of the PTI appears in every Letter at the top of page 2. The chart needs little or no explanation. So far, the PTI has been insistent on the upside and reluctant on the downside. It's no coincidence that this also describes the market's action perfectly. When this changes, we will most definitely see it in the action of the PTI.

DIVISORS: Due to stock splits and spin-offs the divisor for the Dow is now at a new low of **0.3248.** This means that an one point change in any of the 30 Dow Industrials will change the Industrial Average by roughly 3 points. The new divisor for the D-J Transportation Average is **0.4055.**

Of interest: three stocks in the Dow -- GE, United Technologies and IBM -- accounted for an amazing 30% of the Dow's 1996 rise.

BACK-TO-BACK WINNERS: When the broad market rises by better than 50% over two years, it stands to reason that it has discounted a lot of the positive items that investors believe lie ahead. Unfortunately, the third year following two big upside years seems to discount the disappointments, the failures, and the "good things" that never materialized.

This chart from the *WSJ* lists the four previous instances where the Dow produced two very big back-to-back rising years. Note that the years **1995 and '96** constitute the fifth best back-to-back surge for the Dow in history. Now let's see what happened during the "third years" following two big back-to-back years in the Dow.

One-Two Punch

Top five back-to-back, double-digit annual advances in the Dow Jones Industrial Average, ranked by compounded two-year gains.

	GAIN		
	FIRST-YEAR	SECOND-YEAR	COM-POUNDED
1904–05	41.7%	38.2%	95.9
1927–28	28.8	48.2	90.8
1954–55	44.0	28.8	73.9
1935–36	38.5	24.8	72.9
1995–96*	**33.5**	**28.0**	**70.8**

*Through Dec. 30, 1996

The "third year" of **1906** saw the Dow drop 13% between January and May, followed by a recovery back to the January high in September. The Dow closed the year 1906 down only 3%. However, the following or "fourth year" produced the famous and costly "Panic of 1907."

I don't have to say much about "third-year" **1929.** It ended up as a very bad year -- as did the three following years, 1930, 1931 and 1932.

The "third year" **1937** was another horror. The Dow struck a high in March of 194.40. A bear market set in and by September the Dow was down to 113.64, a vicious decline of 41.7% in only six months. This was followed by five years of erratic action, ending at the famous 1942 low of 92.92.

My older subscribers and I remember the "third year" **1956** only too well. That year was characterized by a series of wild Dow swings, each one topping out at the 520 level. The advance-decline ratio declined all during 1956 as did most stocks -- even though the Dow ended up 10 points higher for the year. The real trouble came in 1957 when a vicious summer collapse took the Dow from 520 to 419 in a matter of three months.

All right, again we have the two big up-years, 1995 and 1996. With the Dow up a compounded 70.8% for those two years, I have to think that a great amount of good news has already been discounted. So what are the odds for **1997**? My guess for 1997 and probably beyond -- very difficult, erratic markets for investors -- with the possibility of a primary bear market starting somewhere along the line.

Conclusion: Remember this -- "the market can do anything." But two BIG years on the upside, so far, have never produced a profitable third year on Wall Street. OK, maybe, just maybe this time it will be different.

The New Rules: (1) The first new rule for 1997 is to go global. Everybody is saying it -- the smart thing to do is to go global. **Russell comment:** Many overseas markets offer better values than does the US market. However, many of the overseas markets are thin and even illiquid. Which perhaps is not a big problem in a bull market. But if the US market turns down, I'm of the opinion that ALL the world's markets will turn down along with the US market. In that case, we'll get a lesson called, "What happens to illiquid markets when the going gets rough?"

(2) The second new rule is to "stay fully invested at all times." And why not? "Fully invested" has been good to investors for years. And don't studies show that if you'd held onto your stock over the last 50 years or so, through thick and thin, you'd be "deep in clover" today? Sure, IF -- IF you'd only bought and held.

(3) The third new rule is to "buy every market decline." Listen, it's axiomatic, buy a decline and the market will invariably advance to new highs, making your decline-buying profitable and well -- almost fool-proof.

(4) The fourth new rule is to stop worrying and trust in your fund manager. C'mon, he's a professional; he'll know what to do if the market heads down -- won't he?

INVESTMENT POSITION: I watch this market as carefully as I ever have, and to be honest -- it's hard to find the weakness. Or let me put it this way -- every potential area of weakness (at least up to now) has been washed out, swallowed by the bull.

On the first page of this Letter I drew attention to the divergence between the Dow and the Transports. In 1996 we witnessed an extended period in which the Transports refused to confirm new highs in the Dow. That was finally resolved in November when the Transports rose to a new record high. Now, again, the Transports are hoisting a yellow flag. This time they have traced out a series of declining peaks. So let's see if the Transports, as per 1996, will erase the danger signals or whether this time "it really is trouble."

In the meantime, two of my most trusted indicators, the PTI and the advance-decline ratio continue to push to new highs. Thus, the amazing string of new highs in both of these indicators continues -- and that's action that tells us that the bull is still very much alive.

So skeptics and bears bite their nails and wait for trouble. It will come, but it will come when least wanted and probably least expected.

In the meantime, el toro commands the box, and those who don't mind holding stocks that yield 1% to 2% rather than cash continue to buy and hold. Respect the bull. But remember also that no tree grows to the sky.

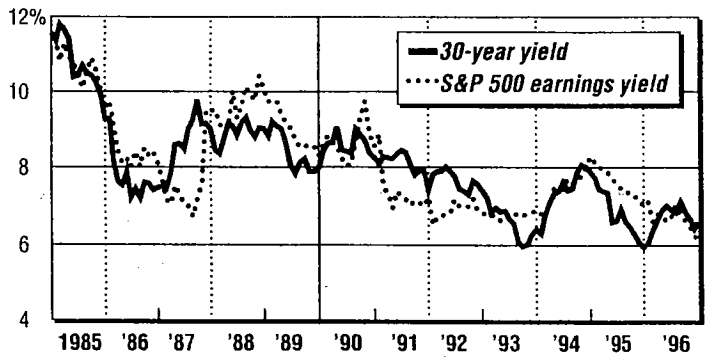
A final thought -- it's not given to the public to come away from a bull market with profits. Now how are the gods of Wall Street going to arrange that? We old-timers can only wonder.

INTRINSIC VALUE: One of the constant arguments regarding stocks concerns values. **What are stocks worth at any given time?** To quote from an incisive recent article in the *WSJ* by Roger Lowenstein, "a business is 'worth' what it can be expected to 'pay' its owners -- that is, the free cash flow it will provide to them. Our proxy for that number is earnings. But the value of future earnings must also be discounted (by a longer-term rate, since the horizon for stocks is longer). This notion of *intrinsic value* stems from a business' inherent properties -- from what it is expected to earn -- not from extrinsic values, such as popularity with investors, or its recent share price, or the fact that in some previous period it 'under-performed,' or the hieroglyphics of technical so-called 'analysts'."

This chart accompanied the *WSJ* article. The chart compares the *expected* yield from (1) the S&P 500 and (2) the 30-year Treasury bond. Historically, these two tend to move in lock-step. When they get out-of-whack, the lagging item usually catches up with the other, as you can see on the chart.

Tango Partners

Yield on 30-year Treasury bonds vs. S&P 500 12-month forward earnings yield, monthly data



Source: I/B/E/S International

Item #1 in the paragraph above is the expected earnings yield on the S&P. This is simply the *projected* earnings divided by the current price. Item # 2 is simply the current T-bond yield.

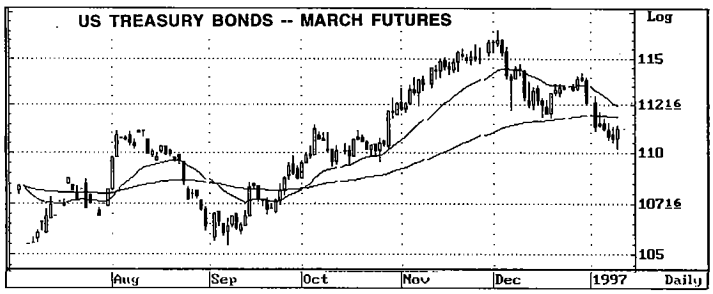
Last week I brought this study up to date. Here's the way I did it. *Barron's* lists the 1996 Dow earnings at 375.58. It lists the projected earnings for the Dow at 433.89 dollars. In other words, earnings are expected to be up 15.5% for the Dow. *Barron's* lists the current earnings for the S&P 500 as 36 dollars. All right, let's boost these earnings by the same 15.5% (the same as the Dow), which gives us a reading of 41.58 for the projected earnings for the S&P (assuming that earnings for the S& P can keep up with earnings on the Dow).

All right, dividing the projected S&P earnings (41.58) by the current price of the S&P (750) gives us a ratio of 5.5%.

But the current yield on the 30 year T-bond is now 6.82%, a full 1.3 percent *above* the projection for '97 S&P earnings yield of 5.5%.

Conclusion: The study indicates that on an intrinsic value basis, stocks are very *overpriced.* And either bonds must rally (which would reduce their yield) or stock earnings must boom. Also, since the study is out-of-whack in favor or bonds, the stock market should now be particularly sensitive to bond yields. *Any decline in bonds from here should put unusual pressure on stocks.*

Along this line, it is important to note that since their December 3 peak, bonds have been acting bearishly. Note that the T-Bond futures (March contract) have now plunged below both their 34-day and 144-day moving averages. This is very negative action.



NOTES & QUOTES: Thirty-nine years. When asked how old he was, comedian Jack Benny always insisted (even when he was in his 60s) that he was 39. Mmmm, 39 -- that's exactly how long I've been writing *Dow Theory Letters.*

I started these reports back in 1958 with a hundred dollars in cash and a lot of enthusiasm; my wife and my mother were my "secretaries." Through bull and bear markets I've enjoyed writing the Letters. From a financial standpoint, I've always done well in this business, although (blush) from a forecasting standpoint I've had more than a few rotten years. I have about 6,000 subscribers at this writing: individuals in all 50 states, plus institutions, mutual funds, banks, pension funds, even foreign governments. Many subscribers who were with me during the late '50s and early '60s are still with me, which is amazing and which I appreciate.

One drawback -- I've never skipped a Letter in 39 years, and in 39 years I've only taken one vacation of more than five days. But don't feel sorry for me -- the truth is that I like dealing with the markets and writing the Letters more than I like vacations. People ask, "Russell, don't you miss traveling?" and I tell them, "Look, I spent my first 35 years trying to get to a place like La Jolla, why in the devil would I want to leave? As for traveling, now I've got the Travel Channel on TV; it's travel without the aggravation."

Coincidentally, I just read an interview-piece in the current issue of *Marie Claire* magazine about film director David Lynch. Says Lynch (and this jibes with my own philosophy), *"I don't go away too much. It always strikes me that wherever you go, there you are. We could be in Pakistan right now, you know what I mean? You always carry all the same problems. It's not so different anywhere you are with yourself, so I figure, why go?"*

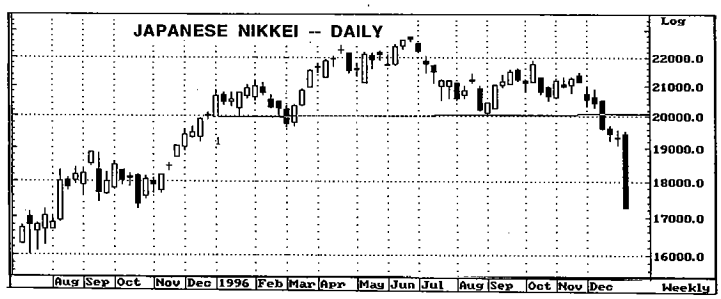
The secret of longevity in this business? The only secret I know is that you've got to be fascinated with the markets -- I'll go further, you've got to love the markets -- yes, even when they hurt you or drive you "up the wall." But enough of this chatter -- let's get on with it.

* *

On January 10 Japan's Nikkei stock average broke below 18,000, smashing to a new low. This weekly chart shows the giant head-and-shoulders top in the Nikkei and the recent ominous break. What's going on? Many of the huge Japanese pension funds are severely underfunded, with a few near insolvency. As Japanese stocks decline they erode the cushion of Japan's banks. The cushion is the so-called hidden profits in the banks' huge stock portfolios. These stock profits have been a huge plus for Japan's banks, but as the banks' portfolios shrink, questions arise about bank solvency. On top of that, Japanese real estate is in the dumps with Japanese firms and banks taking huge losses in that area. A question: since Japan has been the major buyer of US Treasury bonds, will the continuation of Japan's bear market mean that they will pull back on buying US bonds?

Japan's interest rates are so low now (bills down to 1/2%) that the only next step would be to give money away. Of course, the last step would be massive government spending in an effort to jump start the economy. Ironically, while analysts were recommending Japanese stocks a year ago ("look how much they've dropped from the highs") they are now saying that even at current levels, Japanese stocks are selling at 50 times earnings.

The question I have is this -- can a world power, a nation that has provided much of the global liquidity of the last decade, can such a power be in a vicious primary bear market and that situation not affect the rest of the world adversely? We will soon see.



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Deflation? Are we seeing global competitive devaluations? It's no secret that every nation in the world wants to increase its exports, and one way for a nation to do this is to cheapen its currency. What we see now is the dollar in a bull trend and gold in a bear trend. A stronger dollar means pressure on US exports (already it's hitting our wheat and auto sales). A strong and rising dollar is a trend which hurts our trade balance and which is deflationary. At the same time declining gold is basically deflationary. So I have to wonder -- do declining European and Asian currencies vs. the dollar mean that our trading partners are *exporting their deflation to the US?* It's certainly a thought.

* *

Michael Eisner, Disney's CEO, just got a new contract: same old $750,000 a year, but plus options on another 8 million shares which vest at varying prices. Eisner has another 16 million options now worth around $365 million. But hey, big deal. Bill Gates is now worth $24 billion in Microsoft stock, and the amazing statistic is that last year Gates' worth rose by $30 million a day.

* *

What ever happened to the once widely-watched "hemline" indicator? This is the theory that the market goes up and down in tandem with lady's hemlines. For years women's hemlines have been rising, accompanying a rise in the Dow. But this year hemlines appear to be dropping. What's next, the long-awaited victory ("will it ever happen") by an AFC team in the Super Bowl?

* *

What do you mean, you can't go home again? The Raiders went back to Oakland (not that Oakland is that thrilled). Now Peter O'Malley announces that the LA Dodgers are for sale, maybe for a cool $200 million. And what's this -- New York's Governor George Pataki called on New York leaders to make "a realistic bid" to return the Dodgers to Brooklyn. Can you picture it, the Dodgers back in Brooklyn again where they belong? I doubt if it can happen with two baseball teams already in NY, and with LA being cleared out of sports teams. States author/expert Roger Kahn ("The Boys of Summer"), "On the day that Camelot reappears in England, the Dodgers will return to Brooklyn. Brooklyn is not a prime market, to use these awful terms that make baseball a business and not a game. The site in LA is favorable to all kinds of profit."

Meanwhile, Dodgers' owner Peter O'Malley stated, "Family ownership of sports is probably a dying breed." The reason -- many major league teams are now unprofitable. Individuals buy them as an ego trip. To be profitable today and to offset rising costs, a sports franchise must generate additional profits by transforming ballparks into sports complexes with restaurants, theaters, retail stores, luxury seats and TV and radio rights. According to experts, sports ownership today is likely to fall into one of three categories: (1) Corporate ownership as per Disney's control of the Anaheim Angels or Time Warner's ownership of the Atlanta Braves. (2) Ownership by a group of wealthy, civic-minded individuals such as the Bay Area consortium that bought the San Francisco Giants in 1992. (3) A combination of individual and public stock ownership, a structure pioneered by the Boston Celtics which floated a public stock offering for 40% of the basketball club in 1986. However, such stock sales are banned by current baseball rules.

* *

Looks like free agency has finished off potential football dynasties. Denver is out of the playoffs along with the Cowboys and the 49ers. Is this good? Yes and no. I never liked the dynasties, but now along with teams moving to where there's more money we have to put up with teams coming apart each year. Today the fans never know whether their home teams will stay home, nor do they know that this year's team will look anything like next year's team. Pro sports -- more than ever it's become a matter of MONEY. In the end, it will not be good for pro sports.

* *

The questions about the proposed European single currency keep coming up. Will Europe be happy with a currency that acts a lot like the powerful D-mark? Will the new currency "Germanize" Europe or unite it? Will Europe (mmm, Spain, Portugal, France) be satisfied to be led by a conservative Germany? Remember, Europe is not like the US where if jobs are scarce in one state a worker can pack up and simply move across the country to another state. Furthermore, certain nations, France in particular, chafe at the thought of their nation being subject to stiff rules that may not be in their own interest. Finally, will the Germans be happy to turn in their powerful mark for what could be a "soggy" Euro?

* *

What happened to all the great old radio shows? They've gone the way of the buggy whip and the typewriter. But no, station KNX out of LA (broadcasting out of Mexico) offers these gems every night -- at 9PM and again at 2AM. Each program is half an hour and we get two from 9 to 10PM and a repeat from 2 to 3AM. The programs change each month so we get Tales of the Texas Rangers, the Voyage of the Scarlet Queen, Gunsmoke, Dragnet, the Lone Ranger, the Six Shooter, Gangbusters, the Shadow, the Falcon, and a dozen other classics. It's a wonder I get any sleep at all, what with radio plus NYPD and Law and Order on TV. And then there's my 24-hour display screen Globex, which posts quotes on the bonds, the S&Ps and the currencies, starting on the West Coast at 4PM and going all through the night -- help!

* *

A great deal of publicity is being given to "The Zone" books by Barry Sears, Ph.D. Sears is a very serious researcher, but he also considers himself a heart attack candidate. Sears' father and three uncles all died in their 50s of heart attacks, and Sears is convinced that the right kind of eating is a plus for lowered cholesterol and a longer life. As for me, I have congenitally high cholesterol, over 320. Many years ago I went on a strict Pritikin diet for six months, and my cholesterol count actually went up. Diet has no effect at all on my cholesterol count.

So I entered a research program and became a guinea pig for the drug, Mevacor (before the FDA approved it). Mevacor lowered my cholesterol count to 200. This was after I had a heart attack back in 1970. But later I underwent a quintuple by-pass. Then when one of the by-pass grafts closed up, I had a "stent" placed in the graft. All of these operations are temporary -- none of them address the basic problem, which is a build-up of plaque in the arteries. I turned to chelation in the hope of finding a fundamental treatment. Chelation (assuming it works, and I believe it does) removes plaque.

In reading "Enter the Zone," I looked for any mention of chelation. There was nothing, not a word. So my advice to Barry Sears -- you're an obvious candidate for a heart attack, so why not go to a health food store and buy a book on chelation? My by-pass operation was 11 years ago, and at that time my surgeon said that in a matter of 10 years or so his old patients often come back for a second by-pass. So far, I haven't been back. I do 40 minutes on a Stairmaster every day, and if I was becoming clogged up again I think I'd know it immediately. Before the by-pass, I could hardly walk 100 yards, I mean I was almost totally clogged and chronically short of breath. My heart just wasn't getting enough oxygen. At my last chelation session (I've had around 100) I talked with a 74-year-old man who told me, "Seventeen years ago my cardiologist told me that I needed an immediate by-pass. I decided on chelation instead. Well, it's been 17 years, I still haven't had the by-pass, and I play golf three times a week." Go argue with that.

* *

This from the January 4 *Economist* magazine: "As usual, Mr. Clinton is ahead of his time. He has already been running the White House to extraordinary utilitarian effect. It is not just the 11,000 useful people whose hands he has shaken and whose egos he has flattered by inviting them to delightful holiday-season receptions over recent days. Other presidents have done that, too. But no other president made as much use of White House hospitality -- all those overnight guests in the Lincoln Bedroom -- to charm the Democrats' big-money givers."

Signe Wilkinson
Philadelphia Daily News
Cartoonists & Writers Syndicate
HERE'S YOUR SPEECH ABOUT HOW ALLOWING ANY MARIJUANA USE WILL LEAD TO DANGEROUS ADDICTIONS.
ASIAN GOLD
CAMPAIGN CONTRIBUTIONS

* *

A subscriber sent me a piece entitled, "The 545 People Responsible For All of America's Woes." Of course, he's talking about 100 Senators and 435 Congressmen, one president and 9 Supreme Court judges -- Democrats and Republicans. The author writes, "I excluded the members of the Fed because that problem was created by Congress. In 1913 Congress delegated its Constitutional duty to provide a sound currency to a federally chartered but private central bank . . . I exclude all of the special interests and lobbyists for a sound reason. The have no legal authority. They have no ability to coerce a Senator or Congressman to do one cotton-picking thing. I don't care if they offer a politician $1 million in cash, the politician has the power to accept or reject it." He concludes, "I can't think of a single domestic problem, from an unfair tax code to defense overruns, that is not traceable directly to these 545 people."

Russell comment: Ah yes, I agree that the politicians have damn near ruined this nation. BUT what about us? We elect these political bums. You see, the fatal flaw in a Democracy (excuse me, a democratic Republic) is that it depends on an *informed* electorate. If the majority of the electorate is ignorant, or if the majority of the electorate wants more goodies than they are willing to work for, or if the majority wants to take from the producers and distribute it to the users, or if the majority is willing to put up with politicians who act more like greedy hacks than representatives of the people -- then we've got what we voted for. And whose fault is that?

Conclusion: If you don't like what's going on, don't blame the politicians, blame yourself and your neighbors. We have the vote --

assuming we'll get off our duff and use it. We can vote the politicians in or kick them out. Listen, somebody voted for Clinton and high taxes and big government, I didn't.

* *

Crystal Ball: People (investors) hate uncertainty, and pine for certainty. That's why predictions from well-known experts capture headlines. Morgan Stanley's Byron Wien has just offered his predictions for 1997. As I said, investors love certainty and hate surprises, so Wien's list often prepared them for a surprise that may or may not come. Here are a few of Wien's predictions for '97: the European union breaks down amid serious social and politician unrest . . . crude up to 40 bucks a barrel . . . the Dow rises to 7,500 as the US economy strengthens substantially . . . a surge in small companies' stocks . . . Clinton's troubles bore America, his popularity zooms . . . gold slides to $300 an ounce.

Russell comment: Happily, nobody goes back to check the correctness of early-year predictions. How about a Russell prediction? OK, here's one based on my old adage that "the stock market always does what it's supposed to -- BUT NEVER WHEN." The stock market goes into a maddening trading range during most of '97. Neither the bulls or the bears can claim victory. Then, major trouble towards the end of the year or maybe even in early '98.

* *

With the Academy Awards coming up, *Variety* is chock full of "for your consideration" ads, each touting a different movie star. The movie business has become a master of producing mindless blockbusters or low budget items that hope to make a little money. There's not much in between. Meanwhile, every studio is complaining that there's "too much product," and if a film isn't an immediate hit it's gone in a week.

I like power in any performance. One of the most powerful performances I ever remember seeing was Marlon Brando in the original "Streetcar Named Desire" on Broadway. Brando changed acting with that remarkable performance. John Malkovitch in the play, "True West," was another mind-blowing performance. The most amazing performance I saw this year was Lili Taylor in "I Shot Andy Warhol." Taylor's acting is a revelation. Talk about living the part . . . You like power -- listen to the current hit, "Unbreak My Heart" sung by Toni Braxton. Whew, her singing gives you goose bumps.

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The January 10 *NY Times* featured a full-page nostalgia piece by Mimi Sheraton, who evidently attended New York University about the same time I did (I graduated in 1946). Mimi lives in Greenwich Village, where the liberal arts college of NYU is located. She laments the passing of the old Village, but she says there's enough of the old Village left so that she continues to live there and love it. In the "old days," the Village was a Mecca for artists, writers, rebels, gays, and NYU students. I loved the Village and particularly 8th Street with its bars, art shops, cheap restaurants and assorted hang-outs. I would often go to the famous San Remo bar, which was a favorite hang out for Villagers, writers, artists and we students. There was an interesting group of Lesbian ladies who practically lived at the San Remo, and wow, they all rode Harleys. I got friendly with them, and one of the ladies owned a souped-up 80-cubic inch Harley. She showed me the basics of staying alive on a bike, and then let me ride her Harley. That was all I needed -- I was hooked. The year was 1945. I've been riding motorcycles ever since, mostly Harleys. Today I'm down to only one Harley, a 1200 CC Sportster. Too many aggressive crazies on the freeways for me, so I ride mostly around town -- with a helmet. But wait -- I've got one of those new Mercedes SLK roadsters on order, and I can't wait to see it (rumor is that it'll be here in late-February or March).

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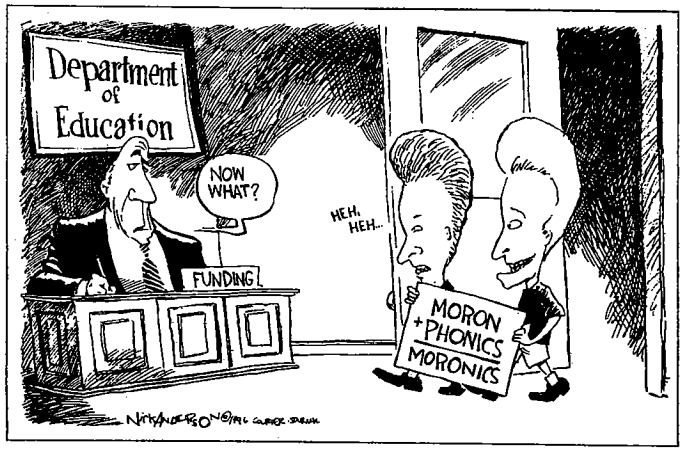
For years I've argued and written here that one of the worst problems this country has to deal with is the millions of uneducated people known as the "under-classes" (black, Latino and white). One of the huge problems with the under-classes is their widespread illiteracy. So when Oakland moved to institutionalize black English (calling it Ebonics, a separate language) many people

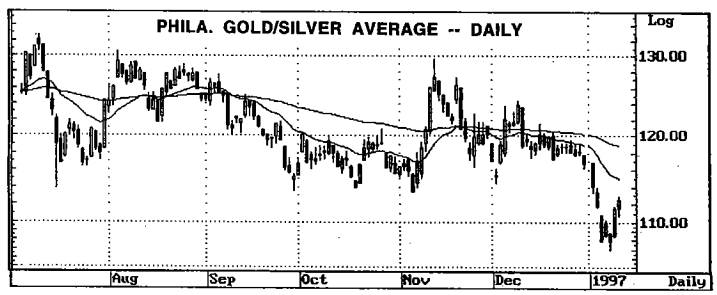


were aghast (including me). How can an illiterate who can't speak or write recognizable English get a decent job? The answer is he can't. So when Oakland tells us that Ebonics is a valid language, fine, see where that takes the illiterates of America.

GOLD: It's almost useless to include gold charts here. Gold has become a matter of psychology. The stories and rumors are flying: "The central banks are selling gold," "There's an over-supply of gold," "Gold is being tossed out of the system," "The Asians have cut back on their gold buying," "Gold is headed for 300."

All I can say is that this is the kind of black pessimism that one can expect at or near a major market bottom. Of course, sentiment is one thing, and price action is another. So let's look for some kind of mark or level. And let's assume that the gold shares will make their move ahead of the metal.

The daily chart of XAU (the Gold/Silver average) shows a big break below the 114 level, a plunge down to 107, and then a two-day rise. SO -- I feel the first indication of something brighter for gold would be an advance by XAU back to the 120 level. And that hasn't happened yet.



LATE NOTES: Last week we saw something never seen before in stock market history -- a Dow yield of 1.98% and a yield on the S&P of 1.96%. Remember that anything around 3% for the Dow was considered "overvalued and dangerous."

Volatility in the stock market has also been huge (volatility is the percentage of change over a given period of time). Few people except option-writers and commodity traders understand the implications of volatility. Option-writers know that huge volatility is often the forerunner of a CHANGE IN THE CHARACTER of the market. Very high volatility implies fear, greed, hysteria, indecision or all four. And ironically, very high volatility often signals a **trading range market** (although the trading range is usually seen IN RETROSPECT, meaning that once volatility calms down, it is seen that the item -- a market, a stock, a commodity -- really didn't change that much in terms of price).

Many bears believe that once this spiking market exhausts itself, a crash is imminent. Not so. Again, high volatility suggests a trading range. And if there is to be any collapse it will occur AFTER the trading range. For those who doubt this, refer to the trading range which came after the 850 gold peak in 1980. It was only months AFTER the trading range that gold headed down into its huge bear market.

NEXT MAILING: Jan. 29, 1997